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27 July 1961

CURRENT INTELLIGENCE WEEKLY SUMMARY



APPROVED FOR RELEASE
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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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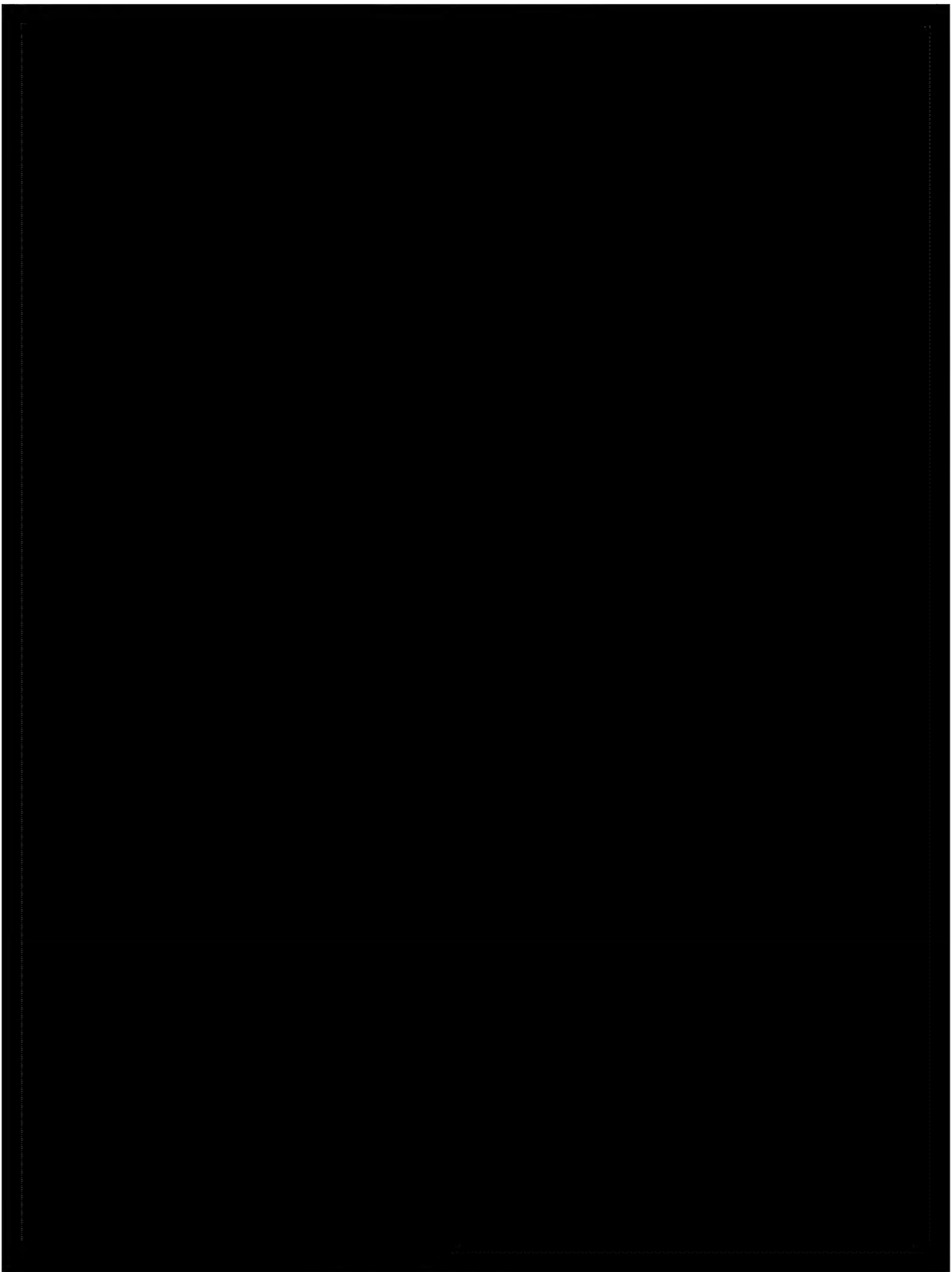
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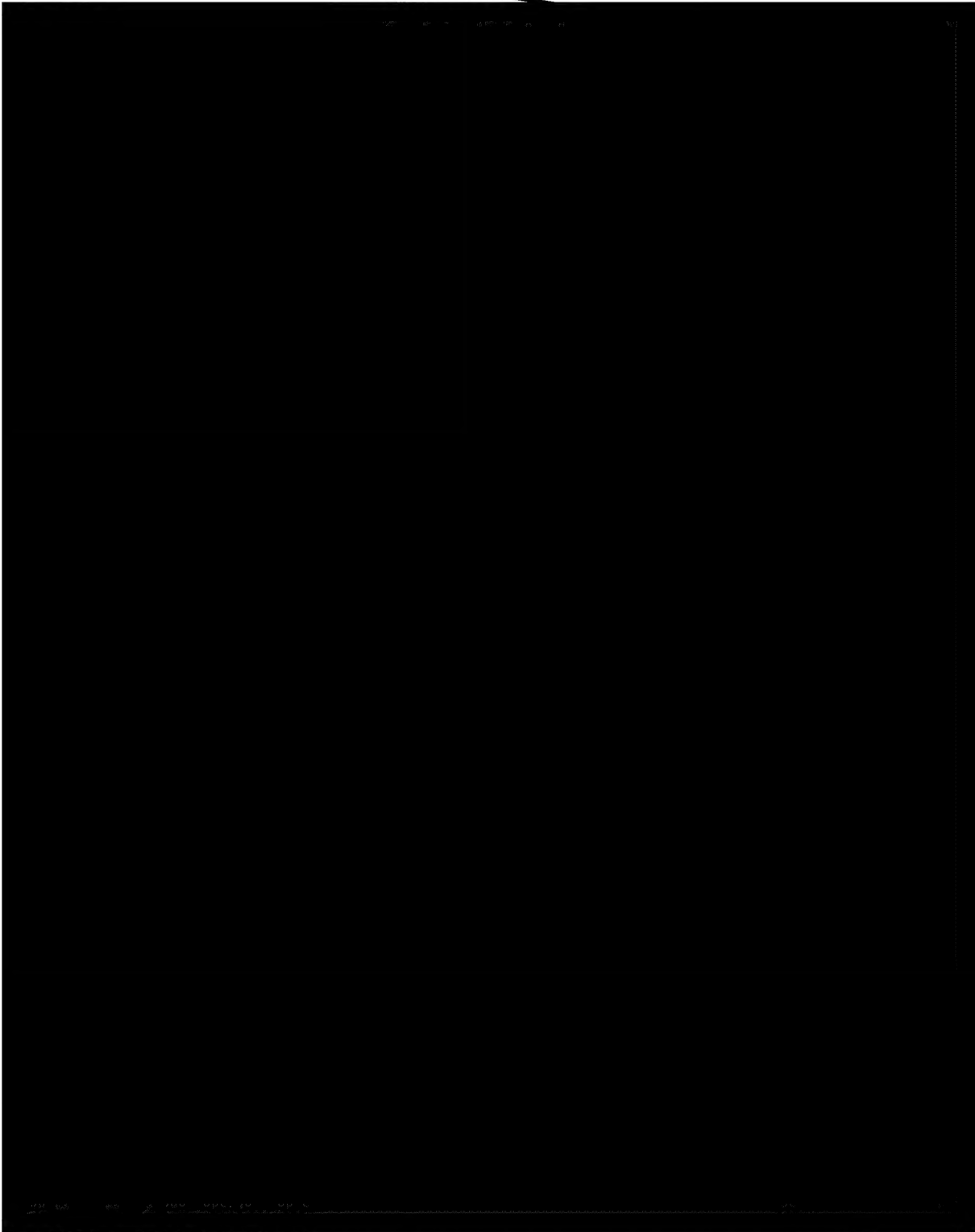
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SOUTH KOREA'S ECONOMY Page 17

South Korea's military government is striving to overcome the dislocation of business and agriculture which

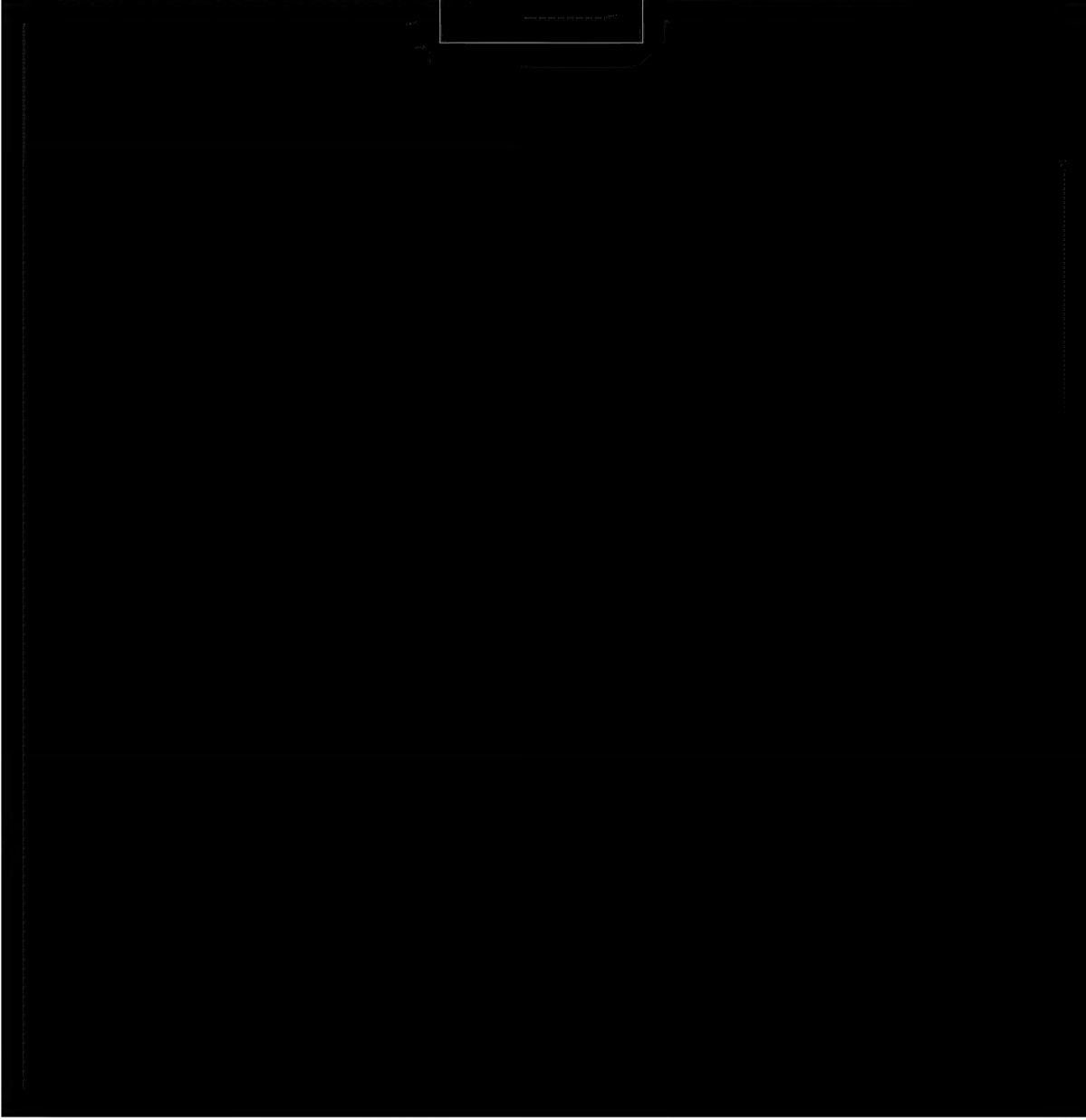
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followed the 16 May coup. The political stability of the regime will continue, however, to be affected by the country's basic economic weakness. The regime, which until recently concentrated on the elimination of corruption and profiteering, is proposing a five-year development plan and a program of spending which appear beyond available resources.



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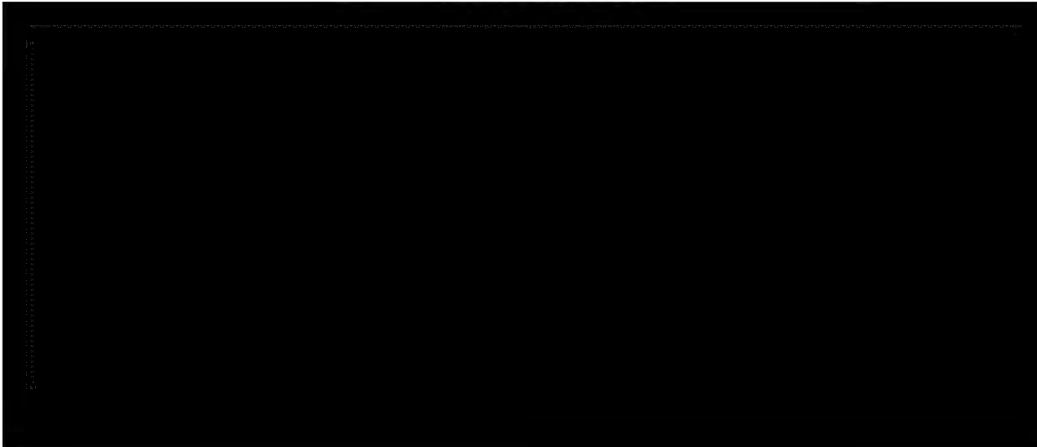
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SOUTH KOREA'S ECONOMY

A paucity of natural resources, severely limited export potential, and lack of managerial and technical personnel will handicap efforts by the South Korean military regime to promote political stability by satisfying widespread expectations for improved economic conditions.

A two-month campaign by the ruling Supreme Council for National Reconstruction (SCNR) to eradicate corruption and profiteering has led to the ouster of 20,000 of the country's 240,000 civil servants, and another 20,000 are expected to be dismissed. Seventeen leading businessmen, the core of the nation's industrial and financial leadership, have been arrested for illegal accumulation of wealth--calculated at more than \$30,000,000--through tax evasion, misuse of bank loans, and political kickbacks. Thirteen of those arrested were released after they offered to surrender to the government all their assets, including industrial facilities. It is still uncertain whether the SCNR will take over these facilities.

The moves against businessmen and a decree limiting interest rates on loans to 20 percent per annum have resulted in industrial, commercial, and fi-

nancial stagnation. This decree, designed primarily to protect farmers against exploitation by money lenders, has made farm credit scarce. The SCNR has not improved the employment situation; approximately 25 percent of the labor force is out of work.

As a long-term solution, the SCNR has drafted a five-year economic development program calling for the establishment of an industrial base which would include cement manufacture, oil and steel production, and oil refining--all requiring heavy imports of raw materials. More immediately, the SCNR is launching a series of spending schemes to assist the farmer, increase the pay of civil servants, raise veterans' benefits, expand public works projects, and finance a mass political organization.

There are signs the government spending program is restoring some confidence within the business community and that some economic revival is under way. At the same time, however, despite governmental economies, which include a cutback in defense expenditures, there are not enough funds ~~APPROVED FOR RELEASE~~ official programs. ~~DATE: JUL 2001~~ probability the SCNR will have to resort to deficit financing, with a consequent resumption of inflation.

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